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SUBJECT: LIANYUNGANG - ENTREPOT FOR JIANGSU'S LESS DEVELOPED NORTH
AND BEYOND

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11. (SBU) Summary: During the Consul General's June 12-13 visit to the city of Lianyungang in northern Jiangsu Province, Mayor Xu Yiping extolled the virtues of Lianyungang's strategic location, noting the city has received a large amount of attention and financial support from the Provincial and Central Governments. The city is also striving to protect intellectual property through its IP Complaint Center, focus on legal software compliance, and cooperation with other IP administrations in the Yangtze River Delta. During a visit to the Lianyungang Development Zone, Vice Director Wang Qiang emphasized that the city is working hard to attract investment, including foreign investment, which thus far has primarily come from Japan and Korea (after Hong Kong). A visit to the Lianyungang Port, China's tenth largest in volume, revealed a port rapidly expanding capacity to deal with China's burgeoning trade and internal transshipments, primarily coal. The CG also called on an American textile business manager, who commented that the appreciating RMB was having a notable effect on business. End summary.

A Key to Northern Jiangsu's Economy

12. (U) Lianyungang, situated on the northern coast of Jiangsu Province, is home to 4.8 million residents, with about 820,000 living in the city proper. It plays a key role in Jiangsu Province's relatively underdeveloped northern half, providing port access to the products manufactured in both northern Jiangsu and southern Shandong provinces. In 1984, Lianyungang was one of the first 14 coastal cities opened to the outside world for trade, and today it is one of China's top ten foreign trade ports. The city's per capita GDP in 2007 was USD 3,949. By comparison, Jiangsu per capita GDP in 2007 was USD 4,705 and the national per capita GDP was USD 2,226. During the first quarter of 2008, Lianyungang's GDP growth was 13.5 percent over the same period last year. In 2007, Lianyungang's total import-export trade volume was USD 3.2 billion, up 23.1 percent from the previous year. The total export volume was USD 1.8 billion, up 27 percent from 2006; the total import volume was USD 1.4 billion, an increase of 11 percent. According to the Lianyungang Foreign Affairs Office, there are approximately 1,000 foreign invested enterprises in the city, with the vast majority originating with investors from Hong Kong, Taiwan, Korea and Japan. There are only a handful of American-invested

enterprises.

Making the Pitch for Lianyungang

13. (SBU) Lianyungang Mayor Xu Yiping briefed the CG on the development of the city, emphasizing that both Jiangsu Provincial Government and Central Government leaders pay a great deal of attention to the city. He noted that Premier Wen Jiabao visited Lianyungang in 2007 and said the city should develop more rapidly. Evidence of the support and attention the city received is manifest in the high amounts of Provincial and Central Government funding for road and port development. For example, the Jiangsu Government has provided RMB 5 billion (USD 715 million) for development of the port. Xu maintained the city has a balanced plan for development, which plays to all the city's strengths as a trade center, transportation hub, and tourist center. Lianyungang also attaches great importance to environmental protection and is consistently rated as one of the top cities in China for air quality, according to local officials. The CG welcomed increased cooperation with Lianyungang and said that American business people are generally unaware of northern Jiangsu's advantages, including its geographic location, people, transportation, and government policies.

14. (SBU) Mayor Xu elaborated that the city is an ideal place to invest. A great deal of effort is being made to connect it with the prosperous southern part of Jiangsu through better road infrastructure. The people are every bit as talented as those in southern Jiangsu, and they know how to "chi ku," or "eat bitterness," to get tough jobs done. Xu also said the city has put a great deal of work into its development zone to attract new business; in 2007 alone, there were 70 new business projects approved for the area. In addition, Xu noted that Lianyungang has a partnership with the city of Zhenjiang in the south of

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Jiangsu. He said the partnership is comprised mostly of exchanges between government officials on ways to increase development. Xu noted that the city generally does not have enough amenities to attract foreign residents, but it does have a hospital that is "up to standards." Regarding whether the slow down in the U.S. economy is having an effect on the area, Xu maintained that it does not because of the relatively low level of foreign trade-related enterprises.

IPR Protection in its Nascent Stages

15. (SBU) The CG emphasized the importance of adequate IP protection in developing the economy and asked what the city was doing in this regard. Xu said the city was one of the three cities in Jiangsu that has an IPR Complaint Center, but it has not received many complaints thus far. There have been no foreign rights holders that have filed complaints at the IPR Complaint Center. The local government has also made sure that all government agencies use legitimate software and is now focusing on ensuring all large companies are compliant. Municipal Science and Technology Bureau Deputy Director Zhang Yunni said there is a special tribunal in Lianyungang that handles all IPR-related cases. In addition, Customs coordinates closely with the Municipal Government on IP-infringement cases involving the port. The city is also part of the Yangtze River Delta IPR-coordination network on administrative cases. Zhang noted that the city has had no cases of Internet piracy, unlike its neighboring city of Yancheng, which is known for Internet piracy. Zhang also maintained the city has not seen any cases of counterfeiters moving from southern Jiangsu to escape a crackdown. (Note: U.S. companies have repeatedly asserted that as southern Jiangsu has cracked down on counterfeiters, they have simply moved to the more "lenient" northern part of the province.)

A City Itching to Develop

16. (SBU) During a separate meeting, Lianyungang Development Zone Vice Director Wang Qiang acknowledged that while the area was not growing as fast as Southern Jiangsu, it is still growing at a rapid clip. He attributed the growth to the city's ideal location on a natural harbor, the integrated transportation network, and the city's attractiveness as a tourist destination.

The Port of Lianyungang is located half way between the ports of Shanghai and Qingdao. It also serves as the terminus for the Longhai/Lanxia rail line that reaches all the way to Xinjiang and services a "hinterland" of 260 million people. The area also recently completed a highway that cuts transportation time to Shanghai from 7 hours to 4.5 hours. However, Wang acknowledged that more needs to be done to develop the area's infrastructure, including more road connectivity and a deeper channel for the port. A stable energy supply is also one of the city's advantages. As the city is a routing stop for a great deal of coal coming from western provinces for the rest of the country, coal is never in short supply. The city also has a new nuclear power plant that was built as a joint project with the Russians, who provided the technology. The power plant went into operation in May 2007 and currently has two 1,000 megawatt generators. Once all phases are completed, it will have a total capacity of 8 generators of 1,000 megawatts each. According to local officials, the power plant will also service other parts of East China.

17. (SBU) Wang also emphasized the city is doing a great deal to attract investment by ensuring good development plans and advertising them widely. One of the major attractions for investors is the abundant space in the area and the lower cost for land. Another is the local labor force, which tends to be relatively more educated and more stable than other areas since there are not many migrants. Wang, however, pointed out that one of the city's weak spots is the lack of amenities for foreigners, such as an international school. There are some Korean and Japanese long-term foreign residents, but U.S. and European residents are rare.

A Little-Known Port with an Eye for the Future

18. (U) According to city statistics, Lianyungang port is the tenth largest seaport in China in volume and has relations with approximately 1,000 ports in over 150 countries. Lianyungang

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has ten international container lines with over 160 voyages per month directly to most countries and regions in the world. Lianyungang port has 28 productive berths, which include special-purpose docks for coal, wood, grain and hazardous cargo.

The port terminal is connected by a rail link that has an annual organizing capacity of 30 million tons. The port is also the fifth largest coal export port in China, a crude oil loading and unloading center, and one of the seven largest transit ports for ore in China.

19. (SBU) During a visit to the port, Lianyungang Port Group Executive Vice Director Song Tiande briefed the CG on port operations. In 2007, the port handled over 3 million TEU and 85 million tons of cargo. In 2008, it is expected to handle 5 million TEU and 100 million tons. In 2020, the port projects an annual throughput capacity of 10 million TEU and 300 million tons. To handle the increasing volume, Song pointed out that the port is expanding rapidly. Song also noted that the Port of Lianyungang is primarily a transshipment port that transfers goods from inland China, such as Shanxi, Sichuan, and Anhui to other parts of China and abroad. The port handles a large volume of coking coal and thermal coke from Shanxi to cities like Shanghai, Nanjing, and Guangdong. Approximately 70 percent of the port's traffic is import and export related. According to Song, the port handles about 2 million tons of soybean imports from the United States each year. Other large imports from the United States are scrap paper and some scrap metal. In addition, Song noted that 60-70 percent of the financial support for the port comes from the local government. The remaining 30

percent of the funding comes from the Central Government. The staff at the port is mostly comprised of local people.

A U.S. Company Feels the RMB Pinch

¶10. (SBU) In a meeting with APlus Group LYG Aiyeh Non-Woven Product Co. Ltd Managing Director Zhang Xuefeng, the CG inquired about the effect RMB appreciation is having on the business. Zhang replied that since the company produces entirely for the export market (70 percent going to the United States alone), they are definitely feeling a pinch. The company currently supplies about one third of the U.S. market for medical textiles (draping clothes, etc.) and is a wholly-owned U.S. company headquartered in Los Angeles. Aplus also has production facilities in Kunshan and Changzhou (both in the southern half of Jiangsu Province), Shanghai, and Qingdao (in Shandong Province). The company's Lianyungang workforce is comprised primarily of approximately 1,000 local workers, who are housed nearby in dormitories. The average salary for the workers is RMB 1,000 (USD 140) per month. Zhang said the local business environment is conducive to investment, and the company has good relations with the local government at all levels.

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